

# Changing for you changing for the better...

Your new and improved  
Local Government Pension Scheme  
- from 1st April 2009



**More** pension **More** flexibility **More** targeted ill health benefits **More** protection for your loved ones - from **1st April 2009**

## THE LGPS IS CHANGING FOR YOU, CHANGING FOR THE BETTER, WITH...

### » **More** pension

In the new LGPS the rate at which you build up pension benefits is being increased.

**In the new LGPS you will choose how much pension to swap for tax-free cash at retirement.**

### » **More** targeted ill health benefits

In the new LGPS members with two years pensionable service will have ill health pensions based on their total possible service.

**In the new LGPS ill health benefits will depend on your future ability to work.**

### » **More** flexibility on retirement

In the new LGPS there are more flexible retirement options.

### » **More** protection for your loved ones

In the new LGPS nominated cohabiting partners can be beneficiaries.

**This leaflet explains the key changes to the LGPS taking effect from the 1 April 2009. The new LGPS is being introduced to benefit you. You will automatically start to build up benefits in the new LGPS from 1 April 2009. Rest assured that any pension that you have already built up in the LGPS is completely safe.**

# THE NEW LGPS WILL BE ONE OF THE BEST PENSION SCHEMES GOING...

The LGPS has long been a valuable part of the pay and reward package for employees working in local government or working for other employers participating in the scheme.

Employers make a very significant contribution towards the cost of making the LGPS available to their employees.

If you choose not to be a member of the LGPS, you will lose out on your employer's pension contribution.

**In the new LGPS your contribution rate will depend on your pay.**

**The new LGPS, much like the existing LGPS, will be one of the best pension schemes available in Scotland, delivering:**

- » A pension based on your final salary.
- » A pension that increases each year in line with price inflation.
- » A pension payable to your surviving spouse, registered civil partner or nominated cohabiting partner on your death after retirement.
- » The ability to exchange some of your pension to provide a tax free lump sum.
- » Lump sum death in service protection of three times your pay.
- » A pension for your surviving spouse, surviving registered civil partner or surviving nominated cohabiting partner on your death in service.
- » A permanent ill health pension paid from any age for those with two years' service who are permanently unable to work.

The rest of this leaflet will explain the new LGPS in more detail.

To help keep things clear, we've grouped the information into the following:

- 1. The changes in building up benefits that give you more pension.**
- 2. The changes in your contributions.**
- 3. Retirement (what you can get and when).**
- 4. How the LGPS protects against illness or death.**



## BETTER MEANS EVEN MORE IN YOUR HAND...

**The LGPS  
will remain  
a final salary  
scheme, with  
the pension  
accrual rate  
increasing  
to 1/60th  
(from 1/80th).**

The pension accrual rate is the speed at which you build up pension benefits. You will get 1/60th of your final salary amount for each year of pensionable service as your pension.

The (3/80th) tax free lump sum payable at retirement provided by the old LGPS will be replaced by the right to choose to convert part of the 1/60th pension into tax free cash at a rate of £1 of pension for £12 of lump sum. This will mean you will have more choice at retirement.

**In the new LGPS you will choose how much pension to swap for tax-free cash at retirement.**

The new 1/60th LGPS not only provides more pension for those not needing tax free cash. It also gives everyone more pension per year, after exchanging some of their pension for the level of tax free cash that the old LGPS would have provided.

### An example:

Arlene has 18 years service in the LGPS, is taking her benefits at 65 and has a final salary of £25,000.

**If Arlene had only been\* in the old LGPS, her benefits would have been calculated as follows:**

Arlene's pension = 18 yrs x (£25,000 ÷ 80)	= £5,625
Arlene's lump sum = 3 x £5,625	= £16,875

**If Arlene had only been\* in the new LGPS, her benefits would have been calculated as follows:**

Arlene's pension = 18 yrs x (£25,000 ÷ 60)	= £7,500
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In the new LGPS no automatic lump sum is payable, but Arlene can choose to exchange part of her total pension for a tax-free cash lump sum. The conversion rate used is £12 of lump sum for every £1 of pension given up.

For Arlene to have a lump sum of £16,875 (as under the old LGPS), she would have to give up £16,875 / 12 = £1,406.25. This would reduce Arlene's new LGPS pension to £6,093.75 (7,500 – 1,406.25).

**In other words Arlene will receive an extra £468.75 a year (= 6,093.75 – 5,625.00) as a result of the introduction of the new LGPS.**

\*Note: in reality it will not be possible for Arlene to choose between the old LGPS and the new LGPS. Any membership before 1 April 2009 will entitle members to retirement benefits from the old LGPS, with membership from 1 April 2009 building up benefits in the new LGPS.



# YOUR CONTRIBUTIONS TO THE NEW LGPS...

In the new LGPS the flat 6% (and the flat 5% for some manual staff) gross contribution rate will be abolished. Your gross contribution rate is your contribution rate before tax and national insurance relief.

Your gross contribution to the new LGPS for the period 1 April 2009 to 31 March 2010 will depend on your annual full time equivalent rate of pay on 31 March 2009. There are five different percentage rates for five tranches of pay:

**In the new LGPS your contribution rate will depend on your pay.**

Pay tranche	Contribution rate (%)
Up to and including £18,000	5.50
Above £18,000 and up to £22,000	7.25
Above £22,000 and up to £30,000	8.50
Above £30,000 and up to £40,000	9.50
Above £40,000	12.00

## An example:

Tom's full time equivalent rate of pay in the previous financial year was £31,000.

**Tom's contribution for this year is calculated as:**

5.50% x £18,000	= £990
7.25% x £4,000	= £290
8.50% x £8,000	= £680
9.50% x £1,000	= £95
<b>£31,000</b>	<b>£2,055</b>

Tom's average gross contribution rate would be  $6.63\% = 2,055/31,000$ .

**After taking account of tax and national insurance breaks, Tom's gross contribution rate of 6.63% would be reduced to a net contribution of 3.99% using 2008/9's tax/national insurance rates and bands.**

Calculation and deduction of your contributions will be taken care of by your pay office, just as it is now.

If you work part time, your contribution rate will be based on the whole time pay rate for your job. However, you will only pay contributions on the pay you actually earn.

In future the pay tranches applied to each contribution rate will be increased in line with price inflation. From 2012 employee contributions may be affected by the potential introduction of a 'cost sharing' arrangement.

To help you to calculate what your gross contribution rate will be from 1 April 2009, we have introduced a contribution calculator on our website. The calculator will tell you your estimated gross average contribution rate. You should be aware that you will be paying more if your full time equivalent annual salary is over £23,500 or if you currently pay the 5% rate.

From April 2009 it will not be possible to elect for a new contract for the purchase of "added years" of LGPS membership.

If you are already paying more to buy "added years", you will continue to pay for them and receive extra benefits on the same basis that you had agreed to buy them.

In the new LGPS you will have the option to pay additional regular contributions to buy additional LGPS pension for yourself and your dependants in multiples of £250 up to a maximum of £5,000 per year.

Members of the new LGPS will also continue to have the following additional options for increasing their benefits:

- » Making "in house" additional voluntary contributions (AVCs) i.e. using the arrangement we have with the Pru.
- » Contributing to a free-standing AVC, personal pension or stakeholder pension i.e. by arranging something yourself.

## GET MORE WHEN YOU NEED IT MOST...

# The new LGPS will have a minimum age for taking pension benefits of 55 for new members from 1 April 2009.

In line with the Finance Act 2004 the minimum pension age for all members will change from 50 to 55 on the 6 April 2010. There are some exceptions.

Please remember that, as in the old LGPS, your employer's consent will be required, if you want to take pension benefits before age 60.

In cases of permanent ill health, there is no minimum age limit and no reduction for early payment.

In the new LGPS the minimum age for retirement as a result of redundancy or efficiency will rise to 55, with members of the old LGPS as at 6 April 2006 having a protected pension age of 50.

In the new LGPS your employer may grant you augmented membership on redundancy. The maximum augmented membership that can be granted is 10 years.

Your employer may have a policy that grants less augmented membership.

To work out a LGPS pension after 1 April 2009 two calculations will be necessary:

- » service up to 31 March 2009 x 1/80th of pay (and 3/80ths for lump sum),
- » and service from 1 April 2009 x 1/60th of pay, with the option to convert part of your larger pension into a tax-free lump sum.

### An example:

Betty is retiring with a final salary of £20,000, pre 2009 membership of 20 years and post 2009 membership of 7 years.

### Betty's benefits will be calculated as follows:

Betty's pension from old LGPS = 20 yrs x (£20,000 ÷ 80)	= £ 5,000.00
Betty's pension from new LGPS = 7 yrs x (£20,000 ÷ 60)	= £ 2,333.33
Betty's total LGPS pension	= £ 7,333.33

### Betty will also receive a lump sum from the old LGPS of 3 x £5,000.00 = £15,000.00

Any reduction to your own pension in order to give yourself a larger tax-free lump sum will not reduce any subsequent dependant's pension which may become payable upon your death.

# MORE FLEXIBILITY ON RETIREMENT...

Subject to your employer's policy, the new LGPS offers more flexible retirement options. Provided that you reduce your hours or move to a position on a lower grade, you will be able to draw:

- » some (this is not possible in the old LGPS) or
- » all (this is possible in the old LGPS)

of the benefits you have already built up in the new LGPS.

This will help you to ease into retirement whilst still drawing your wages/salary from your job on the reduced hours or grade.

**Your employer's consent is needed to do this before 60 (or to carry on working after 65) as in the old LGPS.** From 1 April 2010, you will need to be at least 55 years of age to take flexible retirement. Before 1 April 2010, you will be able to take flexible retirement from age 50.

You will be able to continue paying into the LGPS until age 75 to build up further benefits, if you reduce your hours or move to another position.

If you take pension benefits before age 65, your pension may be reduced for early payment. Your employer may, however, determine not to apply all or part of any reduction at their discretion.

The reduction is dependent on whether you have protection under the rule of 85. Reductions are calculated according to guidance issued by the Government Actuary from time to time.

If you voluntarily retire before age 65, you do not have to receive immediate payment of your benefits. You can defer them within the LGPS up to age 75. If they are deferred after age 65, they will be increased to reflect the fact that your pension will be paid later and for a shorter time.

The rule of 85 used to permit members to retire voluntarily, on grounds other than permanent ill health, efficiency of service or redundancy, from 60 (or from 50 if their employer consented) without their benefits being actuarially reduced, provided that the sum of their age and service was at least 85.

On 1 December 2006 the rule of 85 was removed to comply with the terms of the EC Directive (2000/78/EC) on equality in the workplace.

Transitional protection will still continue to be provided in the new LGPS, with there being three categories of member as far as the rule of 85 is concerned.

**Totally protected** Those who would meet the rule of 85 and who were born on or before 1 April 1960 (i.e. those who will be 60 or over by 1 April 2020) retain the right to use the rule of 85.

**Partially protected** Those who were born after 1 April 1960 (i.e. those who will not be 60 or over by 1 April 2020) and were in the LGPS before 1 December 2006 retain the right to use the rule of 85 in relation to that part of their benefits that were accrued up to 31 March 2008.

**Not protected** Those born after 1 April 1960 whose pensionable service is all after 31 March 2008.

# ILL HEALTH BENEFITS THAT MEAN MORE TO YOU...

## The new LGPS will provide pensions based on prospective service (not on completed service as in the old LGPS).

In the new LGPS ill health benefits will be tiered according to ability to carry out other gainful employment (in Local Government or otherwise) before age 65.

### In the new LGPS ill health benefits will depend on your future ability to work.

Existing members of the LGPS will need to meet the new criteria for qualifying for a permanent ill health pension. They will be protected by a guarantee of being no worse off when the length of their permanent ill health pensionable service is calculated under the new LGPS.

If:

- » you are currently unable to work and have at least two years total membership or have brought a transfer value into the LGPS *and*
- » an approved and independent registered medical practitioner certifies that:
  - you have no reasonable prospect of paid employment
  - for not less than 30 hours per week
  - for a period of not less than 12 months before age 65,

you will receive an immediate permanent ill health pension based on your accrued membership plus 100% of prospective membership to age 65.

### An example:

Joan retires on permanent ill health on her 49th birthday having 5 years of whole time membership. Joan's final pay is £16,000.

Joan's accrued membership	= 5 years
Joan's prospective membership between leaving and age 65	= 16 years
Joan's total permanent ill health membership	= 21 years

**Joan's permanent ill health pension =  $21/60 \times £16,000 = £5,600$ .**

For part timers, the period of extra membership is scaled down in proportion to part time hours worked at date of leaving against full time equivalent hours at that date.

# MORE TARGETED ILL HEALTH BENEFITS...

If:

- » you are currently unable to work and have at least two years total membership or have brought a transfer value into the LGPS and
- » an approved and independent registered medical practitioner certifies that:
  - you have a reasonable prospect of paid employment before age 65
  - for not less than 30 hours per week
  - for a period of not less than 12 months,

you will receive an immediate permanent ill health pension based on your accrued membership plus 25% of your prospective membership between leaving and age 65.

## An example:

Peter retires on permanent ill-health on his 53rd birthday having 20 years of whole-time membership. Peter's final pay is £24,000.

Peter's accrued membership	= 20 years
25% of Peter's prospective membership to 65 = 12/4	= 3 years
Peter's total permanent ill health membership	= 23 years

**Peter's permanent ill health pension =  $23/60 \times £24,000 = £9,200$ .**

An important point about ill health (and any other) retirement is that it is necessary to provide the Strathclyde Pension Fund Office with a signed commutation form before taking ill health retirement that indicates how much tax free cash you want at retirement.

A deferred LGPS pension can also be paid immediately without being reduced for early payment on the request of the member if the member meets the qualifying criteria and this is backed up by the appropriate medical evidence.



## MORE PROTECTION FOR YOUR LOVED ONES...

**If you die in service, the death grant payable to your nominated beneficiaries in the new LGPS will be three times pay rather than the current two times pay.**

For part time employees actual pay in part time employment is used and not the whole time equivalent value.

Currently survivors' pensions are only payable to a spouse or registered civil partner. In the new LGPS they can also be paid to a nominated cohabiting partner.

Survivors' pensions will only be payable if the member has two years' service. They will continue to be based on a standard accrual rate of 1/160th. This means that survivors' pensions will not be adversely affected by a member exchanging pension for tax-free cash at retirement.

For nominated cohabiting or registered civil partners they will be based only on membership since 6 April 1988.

Children's pensions at 1/320th of salary for up to two children for each year of total actual and prospective service are also provided. These are not subject to the member having a minimum period of membership before benefit is payable.

If no survivor's pension is payable to a surviving widow, widower, registered civil partner or nominated cohabiting partner, enhanced rates of children's pension are payable.

If you leave your job after 31 March 2009 and have deferred benefits in the new LGPS having left local government employment, a lump sum death grant based on 5 x annual pension is payable. The old LGPS pays out the retirement lump sum (increased in line with price inflation) that you have built up to date as a lump sum death benefit.

If a pensioner who takes retirement benefits after 1 April 2009 dies prior to age 75, a lump sum death grant based on 10 x pension less pension already paid is payable. This is double what the old LGPS provides.

# IN THE NEW LGPS NOMINATED COHABITING PARTNERS WILL BE RECOGNISED...

In the new LGPS, you will be able to nominate a cohabiting partner, of either the opposite or the same sex, to receive a survivor's pension on your death.

To be able to make a nomination, all of the following conditions must have applied to both you and your nominated cohabiting partner for a continuous period of AT LEAST 2 YEARS on the date you both sign the nomination form:

- » both you and your nominated cohabiting partner are, and have been, free to marry each other or enter into a civil partnership with each other, *and*
- » you and your nominated cohabiting partner have been living together as if you were husband and wife, or civil partners, *and*
- » neither you nor your nominated cohabiting partner has been living with someone else as if you/they were husband and wife or civil partners, *and*
- » either your nominated cohabiting partner is financially dependent on you or you are financially interdependent on each other.

A nomination is NOT valid if all of the above conditions have not been met for a continuous period of AT LEAST 2 YEARS on the date you sign the form.

Your partner is financially dependent on you if you have the highest income.

Financially interdependent means that you rely on your joint finances to support your standard of living. It doesn't mean that you need to be contributing equally. For example, if your partner's income is a lot more than yours, he or she may pay the mortgage and most of the bills and you may pay for the weekly shopping. This would mean that you were financially interdependent.

## PLEASE NOTE:

On your death we would need to verify that the conditions for nomination have been satisfied. For example, we will look for confirmation that you lived in a shared household with shared household spending, or that you had a bank account or mortgage in joint names. There will be a right of appeal, if we decide not to pay a pension and your partner believes that he/she is entitled.

Completing and returning the cohabiting partner nomination form will be important, as we cannot pay a pension to a nominated cohabiting partner without a valid nomination form.



# WANT MORE INFORMATION?

To contact the Strathclyde Pension Fund Office about your pension, you can:

Visit: **2nd Floor, Charlotte House, 78 Queen Street, Glasgow G1 3DN**

Email: **[spfo@glasgow.gov.uk](mailto:spfo@glasgow.gov.uk)**

Visit: **[www.spfo.org.uk](http://www.spfo.org.uk)**

Telephone: **0845 213 0202**

Please note that this leaflet is only a guide to the new LGPS. It does not supersede the underlying regulations that govern the LGPS. These can be found at **[www.sppa.gov.uk/local\\_gov/circulars.htm](http://www.sppa.gov.uk/local_gov/circulars.htm)**



**Strathclyde Pension Fund Office**

Managing the Local Government Pension Scheme in the west of Scotland

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